

The Economy Today

NEWS FLASH

Newsletter for Teachers of Economics to accompany Bradley R. Schiller's *The Economy Today* and *Essentials of Economics* texts.

Unemployment: Beyond the Headlines

Finally, a little good news from the labor market! The Bureau of Labor Statistics (BLS) announced an April 2 that U.S. nonfarm payroll employment increased by 162,000 in March. That was the largest net job gain in over three years. Indeed, it was one of only three monthly gains since December 2007 (there were gains of 64,000 in November 2009 and 14,000 in January 2010). That news prompted President Obama to proclaim that “we are beginning to turn the corner.”

Rising Labor-Market Stress

Although the headline number on employment was welcome, the details in the BLS report revealed continued weakness in the labor market. Most troubling is the role of Census hiring in March. The Census Bureau hired 48,000 workers in March to help conduct the decennial census of all U.S. households. These jobs are explicitly temporary and unrelated to any broader trends in the U.S. economy. Without those census jobs, the job gain in March would have been only 114,000. Still positive, but a lot less than needed to put a dent in the unemployment statistics.

• Long-Term Unemployment

The national unemployment rate in fact stayed near its recession high, at 9.7 percent. Worse yet, unemployment of 27 weeks or more again rose significantly. Of the 15 million unemployed Americans, 44 percent (6.5 million) have been out of work for at least six months. That's an increase of over 400,000 long-term unemployed in a single month.

• Discouraged Workers

Other dimensions of the labor market reveal similar deterioration. The number of **discouraged workers** rose to nearly 1 million, up over 40 percent in the last year. These are individuals who are out of work, want a job, but have given up an active search. Because they haven't actively searched for a job in the last 4 weeks, they aren't counted as “unemployed.” They are part of our unemployment problem, however.

• Marginally Attached

There are another 1.3 million workers

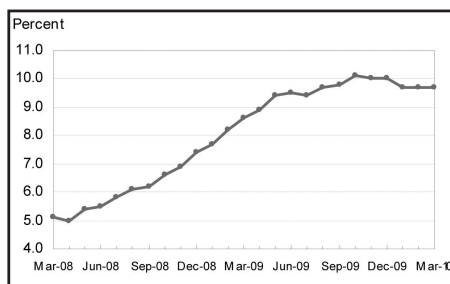


Chart 1. Unemployment rate, seasonally adjusted, March 2008–March 2010

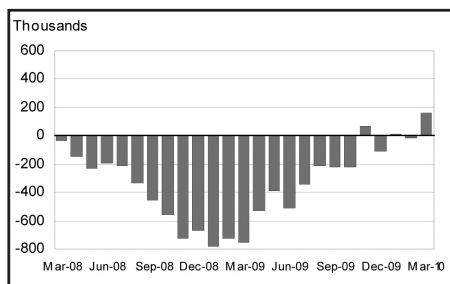


Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, March 2008–March 2010

in a similar plight. They, too, failed to actively seek employment in the last 4 weeks, but do want a job and have sought one in the last year. Instead of citing discouragement as the reason for their non-active search, they cite transportation, health, or household responsibilities as a constraint. Experience reveals that they will resume active job search as the labor market improves, however.

• Involuntary Part-Time

Even among those people who are employed, there is economic stress. Most notable are those workers whose hours have been cut, i.e., people who are working only part-time because they can't secure full-time employment. The Census Bureau classifies them as workers employed “part-time for economic reasons.” In March the number of such involuntary part-time workers rose by nearly 300,000 to over 9 million.

• Hardship Index

Clearly, the headline numbers on jobs and unemployment tell only part of the labor market story. Even when employment

is increasing, economic stress may be spreading. This was evidently the case in March. Although 162,000 more people found jobs, many more workers suffered economic setbacks in the form of reduced hours or job-search futility. The Bureau of Labor Statistics tries to track these broader “hardship” trends with “alternative measures of labor underutilization.” Its broadest measure—labeled “U-6”—encompasses not only the unemployed, but also the involuntary part-time workers, the discouraged workers, and other marginally attached workers. That index rose in March from 16.8 percent to 16.9 percent. Hence, labor-market hardship was increasing, despite some job growth and an unchanged unemployment rate. The corner hasn't yet been turned.

A Moving Target

Turning the corner on economic hardship will require much larger job gains than we got in March. The **labor force** does not stand still waiting for jobs to appear. On the contrary, the labor force grows continuously, fueled by population growth and persistent immigration. These two factors alone expand the size of the potential labor force by 1.7-2.0 million persons a year. That means we need at least that many new jobs each year just to keep the unemployment rate from rising. That translates into a minimum of 140,000 – 165,000 new jobs per month. The March job gains fell into that range. Even larger job gains will be needed to bring the unemployment rate down.

Ironically, bringing the unemployment rate down will be even tougher as job prospects improve. Those 9 million involuntary part-time workers will move to full-time status as economic growth picks up. Indeed, it is a lot less risky for employers to increase hours rather than employees as production ramps up. Less expensive, too, especially in the context of increasing payroll tax and regulatory burdens. Although the increased hours will relieve economic hardship, they won't bring the unemployment rate down.

Then there are all those discouraged and other marginally-attached workers. If hiring prospects improve, they are likely to

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resume active job searching. As they enter the active labor force again, they will add to the number of “unemployed” workers, slowing any potential decline in the official unemployment rate. Just in the last three months, the labor-force participation rate has ticked up by 0.2 percentage points, an increase of nearly 600,000 workers. Were the rate of labor-force participation to return to pre-recession levels, another 3 million people would be in the labor force. That ratchets up the job-gain target to 250,000 or more per month.

Are such job gains possible? Certainly. We had such gains in 1984-89, 1996-99, and again in 2004-07. The national unemployment rate fell from 10.8 percent in December 1982 to 5.0 percent in March 1989. It fell from 5.7 percent in July 1995 to 3.9 percent by the end of 2000. And it fell again from 6.3 percent in June 2002 to 4.4 percent in May 2007. What it took in every case was strong and persistent economic growth. In the context of today’s increasing labor force and rising productivity, we need several quarters of at least 3.5 percent GDP growth to start making a serious dent in our unemployment problem.

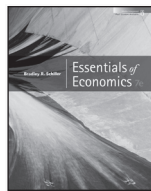
WebNote: For more detail on the (un) employment situation, see the latest News Release at www.bls.gov.

TextNote: Chapter 5 of *The Economy Today* and Chapter 10 of *Essentials of Economics* offer more discussion of the nature, distribution, and hardships of unemployment.

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